

SECTION C  
STATEMENT OF WORK

C.1. INTRODUCTION

- a. The Federal Retirement Thrift Investment Board (Board), created by the Federal Employees' Retirement System Act of 1986, administers the Thrift Savings Plan (TSP) for Federal employees. The TSP is a defined contribution plan similar to 401(k) plans in the private sector. As of April 30, 2000, there were over 2.4 million participants in the TSP, and TSP Fund Balances totaled \$96.9 billion.
- b. Currently, TSP participants may invest their contributions or account balance in any combination in three investment funds: the Government Securities Investment (G) Fund, \$31.6 billion; the Common Stock Index Investment (C) Fund, \$61.4 billion; or the Fixed Income Investment (F) Fund, \$3.9 billion. The TSP plans to make two additional investment funds available: The Small Capitalization Stock Index Investment (S) Fund that will track the Wilshire 4500 Stock Index and The International Stock Index Investment (I) Fund that will track the Morgan Stanley Capital International Europe, Australasia and Far East (EAFE) Stock Index.
- c. As of April 30, 2000, the F Fund had .7 million participants. Monthly contributions to the F Fund for the 12 months ending April 30, 2000, averaged \$42.7 million. Although the F Fund receives contributions from Federal agencies on a daily basis, the contributions are not evenly spread throughout the month, due to the payroll cycles of the employing agencies that submit TSP contributions on behalf of their employees. Other significant cash flows are attributable to loans, withdrawals, and interfund transfers. For the 12 months ending April 30, 2000, loans out of the F Fund averaged \$6.2 million per month, withdrawals out of the F Fund averaged \$8.9 million per month, and interfund transfers averaged \$55.5 million per month (into or out of the F Fund; i.e., the average of the absolute values).
- d. In conjunction with the addition of the two new investment funds, the Board plans to convert the TSP from monthly valuation to daily valuation. Thus, at the commencement of performance under this contract, the F Fund assets will be

invested in a daily-valued, commingled LBA index fund managed by the Contractor, that accommodates daily cash flows into and out of the F Fund.

C.2. STATUTORY REQUIREMENTS

Title 5 of the United States Code, §§ 8438, 8477, and 8478, provides the major statutory requirements for TSP investments (see Attachment 2, Section J).

C.3. STATEMENT OF WORK

- a. Use of the term Contractor is intended to apply collectively to the investment manager and any subcontractors or other entities, regardless of affiliation with the manager, whom the manager may retain to provide the services described in this document, including custodian duties.
- b. To fulfill the requirements of this contract, the Contractor shall:
  1. Accept responsibility as a fiduciary pursuant to § 8477 of Title 5 of the United States Code for its acts or omissions in connection with the selection, purchase, investment, retention and disposition of F Fund assets. Handle all fiduciary responsibilities as required by law.
  2. Provide a daily-valued, commingled, Lehman Brothers U.S. Aggregate Bond (LBA) index fund suitable for a tax-qualified plan that accommodates daily cash flows.
  3. Execute trades efficiently. Minimize trading costs and, upon request, provide an explanation of transactions incurring trading costs above LBA index average trading costs.
  4. Achieve, on a time-weighted basis, investment performance that closely tracks that of the LBA index, as measured and published by Lehman Brothers. The Board will monitor tracking performance on a monthly basis.
  5. Receive (or disburse) by wire transfer, and invest (or disinvest) TSP cash flows from (or to) the Board and any Board asset manager(s) as frequently as daily, subject to the discretion of the Board. Cash flows should be invested

as soon as feasible in notes and bonds selected to track the LBA index. Between the time cash flows are received by the Contractor and invested in securities in the LBA index, or otherwise to provide adequate liquidity for the proposed fund, the funds may be invested in any appropriate futures contracts or in secure, high quality, short-term, fixed-income securities (the cash account). References in this Contract to the F Fund are intended to include the TSP's share of fund units, investments in any futures contracts, and the cash account.

6. Provide a daily trade notification deadline that is no earlier than 2:00 p.m. eastern time, with settlement the next business day. Provide pre-notification trading so that TSP purchases and sales are priced at the closing prices of the notes and bonds in the LBA index on the trade date.

7. Maximize earnings on the cash account subject to prudent investment practices for short-term funds.

8. Remit, as frequently as daily, by wire transfer per the Board's instructions, to the Board's account or to any Board asset manager's account, any and all amounts requested to cover TSP cash flow requirements.

9. Provide earliest crediting of all cash inflows and latest debiting of all outflows.

10. Provide through an electronic data file in the format provided by the Board, to the TSP record keeper on each business day, the TSP's share of the proposed fund's total net earnings, in dollars, for that business day. Total net earnings include capital gain or loss (net of trading costs), interest income, securities lending income, any income from the cash account, or any other income. The daily earnings figures are to be transmitted as soon as available each business day but no later than 6:00 p.m. eastern time. Establish procedures for notification of the Board and the TSP record keeper if the earnings figures are not transmitted by 6:00 p.m. eastern time. (In advance of receipt of the initial TSP funds, the Contractor must participate in testing of the process for transmission of the electronic data file containing the daily earnings. Such testing may include earnings for the offered fund based on hypothetical balances provided by the Board, and

provision of any technical assistance required to establish the electronic data link with the Board's record keeping system.)

11. Provide, no later than the next business day after each trade date, transaction summary reports detailing each trade, including number of units purchased, unit value, and trading costs, and also showing interest and other income credited since the last trade date. Provide timely and accurate monthly reports summarizing the status (including detail of assets held), performance and transactions (including realized loss/gain amounts on sales) of the F Fund. Reports will include an explanation of tracking error. Provide a monthly report on terms of new investments made with securities lending collateral. Provide all such reports electronically to the extent and in the format required by the Board. Provide special written or oral reports to the Contracting Officer's Technical Representative at any time during the contract.

12. Provide detailed bills covering management fees, custodian fees, and any other fees.

13. Provide an established securities lending program for the proposed fund. Provide the Board with securities lending policies and investment policies for collateral associated with securities lending. Provide updates as policies are revised.

14. Provide information on any insurance policies that protect the TSP against loss resulting from violations of fiduciary duty or errors and omissions. Provide information demonstrating compliance with the bonding requirements of §8478 of Title 5 of the United States Code.

15. Accept the in-kind transfer of assets from the prior contractor into the proposed fund at a minimal cost to the TSP.

16. Transfer in-kind the assets of the F Fund to a separate or another commingled account on the books of the Contractor or to a separate or commingled account with another contractor at the request of the Board, upon 30 days' written notice.

17. Provide Board staff access to senior investment personnel.

18. Provide the Board's auditor or its contractor(s) access to the firm's personnel, operations and records to perform the Board's annual financial audit and semiannual financial reviews. This includes providing direct confirmations requested by the independent auditor, audited financial statements, and other documents such as audit reports on internal controls.

19. Provide the Department of Labor, or its contractor(s), access to the firm's personnel, operations, and records to perform fiduciary compliance audits(s).

20. Obtain from the Department of Labor any required exemptions from prohibited transaction restrictions contained in the Federal Employees' Retirement System Act of 1986, without charge to the TSP.

[END OF SECTION]